

Creating Your Financial Road Map

First, you need to know where you want to go financially. Next, you need a “road map” to show you how to get there. Your financial road map is your monthly budget.

As money becomes tight, due to a layoff or other unfortunate event, a budget becomes more important than ever. Whether you are in debt now or you are trying to prevent yourself from falling into it, creating a monthly budget is your first step in avoiding financial trouble. It's a simple but effective way to keep yourself out of debt, even in hard times.



Try these simple steps to guide your financial way:

1. Gather every financial statement you can. This includes bank statements, recent utility bills and any other information regarding a source of income or an expense. The idea here is to create a set of monthly averages, so the more information you can dig up the better.
2. Record all your sources of income. If you are self-employed or have any outside sources of income, be sure to record these as well. If your income is in the form of a regular paycheck where taxes are automatically deducted, you may want to use only the net income (your take-home pay). Record this total income per year and divide by 12 to get a monthly average amount.
3. Create a list of monthly or other regular expenses. This includes a mortgage payment, car payments, auto insurance, groceries, utilities, entertainment, childcare, etc., essentially everything you spend money on. If an expense is not monthly, find your yearly cost and divide by 12 to get your monthly average.
4. Compare your total monthly income and monthly expenses.
 - a. If you end up showing more income than expenses, you are off to a good start. This means you can decide to move this excess to areas of your budget such as retirement savings or increased credit card payments, which will build your future or help you get out of debt more quickly.
 - b. If your results show more money going out in expenses than you are bringing in, you will have to make some changes. Go over your expenses in detail and decide where you can spend less.
5. Apply your new decisions to your real life. A road map is of no use if you don't make the trip.